ECB's Liikanen: No Limits to Non-Conventional Tools

Recent Research | Latest Issues of Sovereign Debt Update | Macroeconomic Forecasts

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Economics
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Summary

ECB's Liikanen: no limits to non-conventional tools – Finland's central bank governor Liikanen says that the ECB is *"ready for further measures"* and that the ECB's *"mandate puts no limit on"* non-conventional policy tools as *"price stability is not in danger"*. Comment: while we doubt that the ECB will cut interest rates at Thursday's policy meeting, we expect the language to change significantly.

EU: European Council President Van Rompuy says EU to *"fully use"* flexibility in EU Stability and Growth Pact.

EU sanctions: ambassadors working on new package for next week – including bans on syndicated loan and buying of Russian derivatives. EU governments are scheduled to take a decision on Friday.

EU: plans to restructure European Commissioners into 6-7 'groups' – around core EU projects, including the creation of an energy union and digital single market, the strengthening of the economic and monetary union, and implementation of a €300bn investment package.

Germany: Economy Minister Gabriel says need for more private investment in infrastructure – with no indication of an additional increase in public funding.

France: FinMin Sapin revises down 2015 spending cuts – noting that "*we cannot have the same [expenditure saving] targets with inflation getting so low*". This would imply a €2bn drop to €19bn (0.1% of GDP) in savings in 2015.

France: Hollande's popularity deteriorates further in Sep – Ifop showed that the French President's popularity ratings had declined by 4pp to 19%, while those of PM Manuel Valls had slumped by 10pp to 43%.

Italy: PM Renzi says spending review will target spending cuts of €20bn – confirms the fiscal deficit will remain below 3% of GDP.

WEF competitiveness ranking: Greece and Portugal gain positions – thanks to reforms in product and labour markets. Italy and Spain unchanged (at 49th and 35th position, respectively).

Services PMI data for August: Strong rise to 58.1 in Spain – well above market expectations (55.5), and standing 1.1sd above its long-term average, Newswires report, with the composite PMI rising to 56.9 in August (vs. 55.7 in July), highest level since Mar 2007. **Italy: composite PMI falls by 3.2 points to 49.9 in August**, lowest since Nov-13.

Portugal: 2015 budget deficit target at risk, Moody's warns – *Diario Economico* reports that this is due to the rejection of the pension levy (CES) by the Constitutional Court in August. Troika post-programme mission to return to Lisbon in October reportedly to deal with the fiscal gap.

Belgium: 2Q GDP confirmed at 0.1% QQ, 1.0% YY – supported by solid 0.6% QQ gain in domestic demand despite a small drop in housing investment.

Recent Research

UK — YouGov Poll Shows Rising Support for Independence

2 September 2014

YouGov report a sharp rise in support for Scottish independence, with the "yes" vote (ie for independence) up to 47% (excluding don't knows) from 43% two weeks earlier, the "no" vote (against independence) down from 57% to 53% and the gap down to just 6 percent from 14 percent previously and 22 points in early August. These polls should be taken in the broader context of the long-term trend: the "no" vote has led in 85 of the 86 published polls since the start of 2012. But the gap seems to be narrowing. We maintain our base case scenario that the "No" campaign will prevail, albeit with greater uncertainty given the shrinking gap and higher degree of mobilisation of "Yes" voters.

Michael Saunders | Tina M Fordham

UK — YouGov Report Slight Rise

Slovenia – Privatization of telecommunications company halted.

Today's News in Detail

ECB's Liikanen: no limits to non-conventional tools – Finland's central bank governor Erkki Liikanen indicated in an interview with Finnish newspaper *Kauppalehti* that the ECB is *"ready for further measures"* and that the ECB's *"mandate puts no limit on"* non-conventional policy tools as *"price stability is not in danger"*. He added that the ECB wants banks to increase corporate lending. Comment: while we doubt that the ECB is ready to cut interest rates further at Thursday's policy meeting, we expect the language to change significantly compared to the August statement to highlight the weaker growth outlook and longer 'low-flation' outlook. Mr. Liikanen's indications that the mandate has no limits as long as the price stability mandate is not threatened amount to further reaffirmation, in our view, that the ECB is moving closer to announcing a large QE programme soon.

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European Council President Van Rompuy says EU to *"fully use"* flexibility in EU Stability and Growth Pact – Bloomberg reports that the President of the European Council Van Rompuy said that *"we should fully use the flexibility of our common budget rules"*, citing a declaration by EU leaders at their summit in June. Van Rompuy added that *"every economic lever must be mobilised in a coordinated way: on supply, on demand, on consumption, and on investment"*, noting that dealing with foreign and domestic crises will be the task of the new European leadership and he does not envy them. Polish Prime Minister Tusk is to succeed van Rompuy from December 1.

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EU sanctions: ambassadors working on new package for next week – Reuters reports that the European Union is considering widening to all Russian state-owned firms a ban on borrowing or raising capital in Europe, according to various diplomats. More specifically, the article notes that syndicated loans would be targeted by the ban, that the minimum maturity of Russian state-owned banks' debt instruments that cannot be sold in the EU would be shortened to 30 days from the current 90 and that buying Russian derivatives would no longer be possible. Additional discussions are focusing on restricting access to advanced energy technologies, including servicing agreements, as well as on possible coordination at the G7 level. The article also indicated that the discussions that took place on Monday were also focusing on whether to bar Russian Defence Minister Sergei Shoigu from entering the EU. The next step is for the EU Commission to prepare a final draft of new sanctions today, and for EU governments to take a decision on the final shape of the package by Friday, according to Italian Foreign Minister Federica Mogherini.

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Incoming EC President Juncker plans to restructure European Commission – *Süddeutsche Zeitung* reports that incoming European Commission President Juncker plans to restructure the commissioner posts (27 in the current outgoing commission) into 6-7 'groups' around core EU projects. These core projects include the creation of an energy union and digital single market, the strengthening of the economic and monetary union, and implementation of a €300bn investment package. According to the article, one commissioner would be named vice president for each project, responsible for the implementation of the project and the reorganization is intended to counter criticism that the Commission is cumbersome and bureaucratic. New Commission appointments are to be presented next week if no opposition emerges (the article notes that Juncker began interviews with candidates on Tuesday, and these are planned to

in Inflation Expectation

2 September 2014

The median for inflation expectations in the year ahead ticked up to 2.3% in August from 2.2% in July, and 2.1% in June, having troughed at 2.0% in April. The median for inflation expectations in the longer term (next 5-10 years) edged up to 3.1% YY in August after two months at 3.0% YY. These results are probably fairly benign from the MPC's point of view. To be sure, inflation expectations remain a little above the 2% inflation target, but they are similar to the averages of recent years. There is no sign that that the recent dip in CPI Inflation below target is pulling inflation expectations lower, but nor has the mix of strong economic growth, rapid drop in unemployment and buoyant house price gains sent inflation expectations sharply higher.

Michael Saunders

Switzerland — More Hints of Economic Slowdown

2 September 2014

GDP was unchanged QQ in Q2, rising just 1.1% YY on the seasonally adjusted data, well below both the consensus (0.5% QQ) and our forecast (0.6% QQ). This is the weakest QQ reading since Q2-2012 (when GDP fell 0.1% QQ). There have been a few other hints in surveys and trade data that the Swiss economy is slowing, after markedly outperforming the euro area in 2012-13. With YY CPI inflation at zero, the SNB is likely to continue to defend the CHF1.20/€ level, if necessary.

Michael Saunders

Euro Economics Weekly — Is the Period of German Outperformance Over?

29 August 2014

We cut our German growth forecasts once again, to 1.3% for 2014 and 1.6% for 2015 (from 1.6% and 2.0% previously). Including this revision, we have now cut our forecasts for cumulative German growth in 2014-15 by 1.6% since June. Prospects for exports and export-sensitive investment have deteriorated in particular, but we acknowledge some uncertainty about the causes of the full extent of the

be completed on Thursday).

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German Economy Minister: Germany needs more private investment in infrastructure – with no indication of an additional increase in public funding. Bloomberg reports that German Economy Minister and Deputy Chancellor Gabriel said that Germany needs to attract private investors to close a gap in financing infrastructure programs, after meeting Chancellor Merkel. Gabriel noted that Germany *"should not be lulled into complacency by positive economic forecasts"* and that investment in Germany remained weak. Separately, Bloomberg reports that the German government is to inject up to €3.3bn over 2015-18 into a fund for climate and energy projects that has been left short of resources because prices for pollution permits had become so low.

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France: FinMin Sapin revises down 2015 spending cuts – Finance Minister Michel Sapin indicated on Tuesday to *Agence France Presse* that "*we cannot have the same [expenditure saving] targets with inflation getting so low*". Mr. Spain remarked that instead of the original forecast of a 1.5% increase in consumer prices in 2015, the revised estimate would likely be closer to 1%, arguing that "*increasing savings does not seem well adapted to this situation*". Business daily *Les Echos* writes that the lower-than-expected inflation trajectory would likely reduce the amount of expenditure savings in 2015 by €2bn to €19bn. Comment: further confirmation that the French government will not be able to meet the 3%-of-GDP budget deficit target in 2015. We anticipate the overshoot to be sizeable, worth probably at least 1pp. To meet the 2015-17 Stability Programme objectives, the government will have to deliver additional savings in 2016 and 2017.

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France: Hollande's popularity deteriorates further in Sep – A poll for *Paris Match* conducted by Ifop showed that the French President's popularity ratings had declined by 4pp to 19%, while that of PM Manuel Valls had slumped by 10pp to 43%. Separately, various press articles focused on comments by Labour Minister François Rebsamen who had indicated on iTele on Tuesday that he was asking the *Pole Emploi* job centres to "*strengthen its controls to make sure that people are indeed looking for work*", adding that "*at some point, there needs to be a penalty*". A number of left-wing politicians and trade unions reacted angrily to the Labour Minister's announcement accusing him of stigmatising the unemployed instead of tackling the problem of elevated joblessness. Comment: although this is the first poll to be conducted since the government reshuffle, the fact that there was no poll carried out in August makes it more difficult to draw some clear conclusions. Yet, the very low popularity ratings of the President and the downward trajectory of Valls' ratings underscore the difficulties that the government will experience in coming weeks and month to pass difficult reforms and various supply side policies before the lower house.

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Italy: PM Renzi says spending cuts for €20bn will result from the spending review – In an interview with *IlSole24Ore*, Renzi says Italy will remain within the 3%-of-GDP deficit target, without new austerity measures, but claimed more flexibility will be adopted in applying the rules of the Fiscal Compact. Renzi confirmed the tax rebates introduced in May (€80/month for low-income earners) will be maintained in 2015 and if possible will be extended, thanks to the reduction in public spending. Comment: we reckon Italy will not want to exceed the deficit threshold of 3% of GDP, but will most likely try to negotiate the deadline imposed by the Fiscal Compact by which it should start to reduce its debt-to-GDP ratio by more than 3pp per year starting from 2016. Sticking to this target (the debt rule) would imply significant additional austerity to raise the primary surplus well above the current levels (2.2% of GDP in 2013).

weakening – domestic demand prospects are also deteriorating (beyond weakness in investment). For now, we expect these drags to be temporary, and for rising real wage growth, supportive financial conditions and a strong construction sector to return Germany to 0.4%-0.5%QQ growth in 2015. In the near-term, weak German growth weighs on growth prospects for the rest of the Eurozone, and makes it more likely that the ECB will announce a quantitative easing programme, likely in Q4.

Ebrahim Rahbari | Guillaume Menuet | Giada Giani | Michael Saunders

Euro Area — Inflation Hit a New 5-Year Low

29 August 2014

HICP inflation declined to a new 5-year low of 0.3% YY in August, from 0.4% YY in July, as generally expected. The decline was mainly driven by the drop in energy prices, while core inflation (ex-food, energy and tobacco) surprisingly edged higher to 0.9% YY. August will likely represent the cyclical trough for euro area inflation, but we see it edging higher only marginally towards the end of the year. Albeit largely affected by global factors, prices of non-core, volatile, items such as food and energy are still important in shaping future core and headline inflation developments

Giada Giani

UK Economics Weekly — Rewriting the Economy's Past and Present

29 August 2014

The ONS are in the middle of a major re-write of UK economic trends, with extensive revisions to UK GDP data. The coming week will see another major step, with revised quarterly GDP data for 1997-2012. Revisions to 2013-14 will be released at end-September. UK GDP growth is usually revised up over time. We expect that these revisions will show that the economy in 2011-12 was not as soft — and that the upturn in 2013-14 has been considerably stronger — than shown by the existing GDP data. Given the buoyant trends in business surveys and employment, we would not be surprised if ONS revisions eventually show that GDP growth in H1 this year

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WEF competitiveness ranking: Greece and Portugal gain positions, Italy and Spain unchanged – The results of the 2014-15 Global Competitiveness Index (GCI) computed by the Global Economic Forum showed Greece and Portugal gained 10 and 15 positions, respectively, since last year. Greece still stands at 81th position among 144 countries examined by the report. *"Improvements in the functioning of its goods market and more flexible labour markets (although they remain rather rigid, at 117th place), along with a better macroeconomic performance with a sharp reduction in the budget deficit, have resulted in this more positive outlook despite its very high levels of government debt"*, the report noted. For Portugal, the gain of 15 places came after several years of deterioration and it was driven by the improvements in the functioning of the goods market and increased flexibility in the labour market. Spain retained the 35th place, despite the *"important reform programme",* partly offset by deterioration in the perceived functioning of institutions (ie. corruption and government efficiency). Italy remained unchanged at 49th position.

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Portugal: 2015 budget deficit target at risk, Moody's warns – *Diario Economico* reports on a Moody's commentary saying that Portugal will face significant difficulties in achieving its budget deficit target of 2.5% of GDP in 2015 (against a target of 4% of GDP for 2014), due to the rejection of the pension levy (CES) by the Constitutional Court in mid-August. Worries about the 2015 Budget were the main reason for the decision of the troika to return to Lisbon in October for the first post-programme mission. The Troika is reportedly asking the government to stick to the agreed budget deficit target and the mission is targeted to advise on the 2015 Budget law to be presented in October. Comment: while the cyclical improvement of the economy should enable the government to achieve its deficit target of 4% of GDP in 2014, we agree that reducing it further to 2.5% in 2015 will be very difficult, especially with the limited room for action on spending cuts due to recurrent negative rulings by the Constitutional Court. There is a possibility, in our view, that the 2015 deficit target will be revised higher.

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Spain: **Services PMI rises strongly in August to 58.1** – Newswires report that the Markit services PMI rose to 58.1 in August, from 56.2 in July, well above market expectations (55.5), and standing 1.1sd above its long-term average. Services PMI is now at its highest level since Nov 2006. The employment index remained above the expansionary threshold of 50 for the fifth consecutive month, newswires report. The composite PMI rose to 56.9 in August (vs. 55.7 in July), highest level since Mar 2007, and standing 0.9sd above its long-term average.

Italy: composite PMI falls by 3.2 points to 49.9 in August, lowest since Nov-13 – The July and August composite PMI average stands at 51.5, the lowest reading since Q4-13. Business activity also weakened in August, with the services PMI reporting a drop of 3 points to 49.8. Business expectations were also reported to have fallen sharply since July to the lowest since December 2013 and well below the long-run series average, according to Markit.

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Belgium: 2Q GDP confirmed at 0.1% QQ, 1.0% YY – the Belgian central bank's second estimate of 2Q GDP showed that the pace of expansion of real economic activity had slowed to 0.1% QQ (1.0% YY) after a 0.4% QQ gain in 1Q-14. Domestic demand grew by 0.6% QQ, supported by a 0.3% QQ increase in private consumption, a 0.1% QQ uptick in public expenditure and a 1.9% QQ jump in gross fixed capital formation although investment in housing fell by 0.2% QQ. Net trade subtracted 0.4pp from GDP as exports rose 2.6% QQ while imports gained 3.2% QQ. Reuters noted that central bank governor Luc Coene had expected GDP growth to slow in the second quarter but that it would likely

was really above 4% YoY. Upward revisions to recent GDP growth rates would highlight how loose the policy stance is, and would also imply that the economy has considerable momentum going forward.

Michael Saunders

UK — Key Results in the European Commission Survey

28 August 2014

The August European Commission monthly survey suggests that UK economic growth remains strong, with no sign of the H2 slowdown forecast by the MPC. Second, expansion remains broad-based: with the latest readings well above average for all sectors. Third, there are signs that recovery is being felt more widely. The consumer confidence index for August is the fourth highest of any month since the survey began in 1985, exceeded only by the figures for Oct-97, May-14 and June-14. The latest figure for consumer confidence among skilled manual workers is the highest since 1997 and indeed has only been exceeded in two months since this series began in 1990 (June and July of 1997). .

Michael Saunders

Euro Area — ECB Preview: Will Draghi Highlight Downside Risks to Inflation?

28 August 2014

Rates to be unchanged at the Sep 4 meeting – More important point is that the Governing Council (GC) is likely to repeat the language change over the weaker growth outlook and lower inflation made by President Draghi in his Jackson Hole speech. Key thing to watch will be how the GC communicates on the balance of risks – ECB staff macroeconomic projections to be an important input, possible announcements include a €50bn ABS purchase programme. Market underestimates the likelihood of QE, in our view

Guillaume Menuet

Euro Area — ECB Draghi Notes Fall in Inflation Expectations

26 August 2014

Draghi modfifes his Jackson Hole

continue to expand at around 0.4% QQ in 2H-14. Comment: we continue to expect GDP growth to accelerate in 2014, up around 1.0% YY, somewhat below the 1.3% central bank estimate and 1.4% forecasts by the Federal Planning Bureau and the EU Commission. The high degree of openness of the Belgian economy and evidence of slowdown in its main trading partners (Germany and France) suggest that the second half of 2014 will likely be less buoyant.

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Slovenia – Privatization of telco company halted. Slovenia Sovereign Holding (SSH), the state holding company responsible for privatization, has halted the privatization process until the new government of SMC's Miro Cerar (in coalition with centre-left pensioners' party DeSUS and left-wing SD) is established. This is likely to be next week once ministers are appointed by the National Assembly after 9 September. What will happen with privatization? We reported that the scenario of a centre-left coalition will result in a delayed and bumpy privatization process as the SD has to compete for voters' support with far-left United Left. Comment: We see three scenarios for telco company privatization: i) privatization will continue as previously planned; ii) the telco company will be divided into two parts as the government does want to privatize the infrastructure; iii) privatization will be abolished. We still believe that first two options are more likely as this new government is unlikely to be able to persuade the EC that it will introduce deeper reforms in labour, health and pension policies in exchange for not continuing with the privatization of "the list of 15 companies". On the other hand, the relationship with the new European Commission can become complicated if previous PM Bratusek is appointed as the Slovenia's EU Commissioner. We will probably know more after the coalition signs the final version of the coalition treaty today. However, a prolonged and deeper easing in the ECB's monetary policy (we assume QE will be introduced) will make it easier for the new government to survive the negative pressure even if the government chooses the last two options. Nevertheless, we have to repeat our view that the decision of the previous government to halt privatization until the new government is established was the right call.

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Latest Issues of Sovereign Debt Update

Draghi and Hollande Agree on Economic Risks

2 September 2014

Hollande, Draghi see lack of demand, deflation as main issues. Banks to receive partial results of AQR/stress tests. Schäuble sees difficult economic situation ahead. Estonian FinMin says economies that have not restructured feel most impact of strong euro. France's Moscovici likely Economic & Monetary Affairs head - sources. Italy's state sector cash deficit narrows. Spain: registered unemployment rises, so do car sales. Greece's 2Q GDP revised lower to -0.3% YY, review of troika programme starts today in Paris.

Giada Giani | Guillaume Menuet | Ebrahim Rahbari

Merkel Calls Draghi after his Comments on Fiscal Policy

1 September 2014

Merkel telephone call to Draghi. ECB's Coeuré ready to adjust policy stance. EU Council on Ukraine, EU economy - elects Tusk, appoints Mogherini. No changes needed to Stability Pact say EU socialists. Germany: business criticises "complacent" govt policy, eurosceptic AfD vote gain. French PM says euro overvalued, unveils housing support. Italy's govt approves judicial reform. Spain: rising support for ruling PP, state budget deficit falls. Portugal: ESA2010 methodology boosts 2011 GDP level.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

speech to note significant decline in inflation expectations. We still expect further non-standard easing soon taking the form of a major QE programme in late Q4-14 or early Q1-15. Lackluster demand problem highlighted by Draghi, likely reflecting growing downside risks to economic activity

Guillaume Menuet

Sweden — Riksbank Forecast: Stable Rates, Lower Interest Rate Path

22 August 2014

After a larger-than-expected 50bp rate cut to 0.25% in July combined with an overshoot in actual inflation versus Riksbank forecasts in recent months, we expect the Riksbank to keep its key policy rate unchanged at the upcoming 4 September monetary policy meeting. However, with disappointing domestic and European economic activity indicators, expected QE from the ECB and an ongoing downtrend in Swedish inflation expectations from already low levels, we reckon pressures remain high on the Riksbank to do more. Hence, we expect the Bank to postpone initial tightening to 1H-16 (4Q-15 previously), and also reckon that now could be the time for more formal forward guidance.

Tina Mortensen

Scandi Economics Update — 3Q Survey to Confirm Drop in NOK Oil Investment Activity in 2015

3 September 2014

Norway — Statistics Norway today publishes the very important oil investment survey for 3Q. The 2Q survey was much weaker than expected, showing nominal oil investment activity 22% below expectations for full-year 2014 (corresponds approx. to a 15% drop in volume terms). We expect the 3Q survey to confirm a drop in oil investment activity next year, although the size of the decline likely will be of a slightly more moderate scale. We do not expect today's survey to have any major impact on the new conditional interest rate path (out 18 Sep).

Sweden — Riksbank Shadow Board sees a stable repo rate, and expects the first interest rate hike to come after

France’s Hollande calls for euro area ‘growth’ summit

29 August 2014

France’s Hollande: calls for euro area ‘growth’ summit – to devise new growth strategy and redefine the pace of budget deficit adjustments to take into account the risk of deflation according to French financial daily *L’Agefi*.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

Merkel Urges Reforms in France, But Hints at Some Budgetary Flexibility

29 August 2014

German Chancellor urges reforms in France, but hints at some flexibility over deficit targets

Giada Giani | Ebrahim Rahbari | Guillaume Menuet

German FM: Draghi’s fiscal comments ‘overinterpreted’

27 August 2014

German FM says ECB President Draghi’s fiscal policy comments were *“overinterpreted”*. These comments suggest that the German government is not about to cave in and change its fiscal course.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

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Macroeconomic Forecasts

Global Economic Forecasts — August 2014

26 August 2014

This file shows summary forecasts, as published in Citi's Global Economic Outlook and Strategy, and their evolution from January 2014.

Michael Saunders

European Economic Forecast Highlights, August 2014

21 August 2014

This companion to the August issue of Global Economic Outlook and Strategy gives more detailed forecasts for the main European countries to 1Q16, together with annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance, and government debt.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Giada Giani | Ebrahim Rahbari

Europe: Monthly Inflation Profiles for Selected Countries

21 August 2014

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, Sweden, Switzerland and UK.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Giada Giani | Ebrahim Rahbari

Global Economic Outlook and Strategy — August 2014

20 August 2014

We are cutting our global growth forecasts for both 2014 and 2015 by 0.1 percent from last month, to 2.8% and 3.4% respectively. This continues our recent bias to forecast downgrades. This month sees the biggest one-month downgrade to our euro area growth forecast since Jan-2012. We also make downgrades this month to growth forecasts for Japan, Australia, Brazil, South Africa and Sweden. We believe that early easing by both the BoJ and ECB is more likely than the consensus view. By contrast, the UK remains likely to tighten quite soon, with the

2015.

Denmark — The Danish krone has strengthened much faster than expected versus the euro, and if the current appreciation trend continues, the DNB is likely to cut the CD-rate by 0.1pp to -0.05% in coming months, in our view.

Tina Mortensen

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Fed likely to start to hike rates about a year from now. Special topic: Is globalisation reversing? We discuss recent trends.

Willem Buiter

Foreign Exchange Forecasts — Lower Yields Delay USD Upside – August 2014

18 August 2014

G10 FX continues to be driven by monetary “surprises”. Recent ambiguous US data have allowed 10y UST yields to break to one year lows. With shorts in the bond market still extended, a move to 2% is possible near term which would almost certainly entail further USD losses over 0-3m. Similarly, delayed tightening in the UK will set back GBP given extended long positioning. Meanwhile, lack of additional stimulus in both Japan and Europe should generate short term JPY and EUR gains. Citi forecasts are still for all of this to reverse over 6-12m. By then the UK and US will be raising rates and both the BoJ and ECB will be expanding balance sheets. In EM, carry/ yield grab dynamics remain prevalent. We project broad stability over 0-3m. Further out, Fed tightening and higher UST yields favour the USD. Our forecasts imply EM depreciation of about 3% over 6-12m.

Jeremy Hale

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Appendix A-1

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